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PRO BANKRUPTCY INVESTORS

Klarman's Baupost Poised to Cash In On PG&E Insurance Bet

Seeking to build support for chapter 11 strategy, PG&E settles with insurance claims holders including Baupost Group



Seth Klarman's Baupost Group bought California wildfire claims for as little as 30 cents on the dollar as insurers sought to shift losses off their books. PHOTO: JEENAH MOON/BLOOMBERG NEWS

By Peg Brickley

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Seth Klarman's hedge fund Baupost Group LLC is poised to rake in profits from the bankruptcy of PG&E Corp. under an \$11 billion insurance settlement, the endgame of an investment strategy launched months in advance of the California utility's bankruptcy.

Public records reviewed by The Wall Street Journal indicate Baupost stands to make hundreds of millions of dollars from its investment in insurance claims tied to the wildfires that pushed PG&E into chapter 11. Under a proposed settlement unveiled Friday, those insurance claims will

be paid back at roughly 59 cents on the dollar, roughly twice what Baupost paid for some of them, records show.

A Baupost spokesperson declined to comment.

PG&E filed for chapter 11 protection at the end of January, struggling under the weight of \$30 billion or more in damage claims from wildfires in 2017 and 2018 that were later linked to its equipment. Court records show that between \$18.6 billion and \$20 billion of PG&E's total wildfire bill stem from the insurance proceeds paid out to cover wildfire-related property damage.

Those insurers, in turn, are some of the largest claimants to be paid off as a prerequisite to PG&E's exit from bankruptcy.

Uncertainty about PG&E's future has sparked active trading in the company's stocks and bonds as Wall Street traders staked out bets on how much the company could pay. But Baupost also spotted an opportunity in the relatively obscure corner of insurance claims, according to records maintained by California insurance regulators.

The exact amount Baupost stands to make couldn't be learned. As of March it owned \$2.5 billion in insurance claims, according to court documents. It bought the claims at steep discounts as early as last year from insurers anxious to shift the wildfire losses off their books, the records show.

Regulatory records from one major insurer, CSAA Insurance Exchange, say Baupost paid 30 cents on the dollar to 35 cents on the dollar for a significant number of California wildfire claims in late 2018 and early 2019, as it rolled up a stake in PG&E insurance claims.

On Friday, PG&E announced a settlement that puts the recovery for insurers at closer to 60 cents on the dollar, an improvement for those claims relative to the utility's initial offer and a potential windfall for Baupost if the restructuring proposal is confirmed in court.

Under the placeholder chapter 11 plan PG&E filed earlier this week, insurers who paid off some of PG&E's fire damages were being offered \$8.5 billion. A PG&E spokesperson said the new deal was an "agreement in principle" and the company would announce additional details when a full written settlement is reached.

Baupost has demonstrated a knack for finding unusual ways to make money from corporate collapses. When nuclear plant builder Westinghouse Electric Co. went bankrupt in 2017, Baupost negotiated a deal to buy claims against the company from its parent Toshiba Corp., eventually walking away with \$400 million or more in profits.

Write to Peg Brickley at peg.brickley@wsj.com

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